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SUBJECT: SINGAPORE TOURISM AND AIR TRAFFIC DOWN

11. (SBU) SUMMARY: The Civil Aviation Authority of Singapore (CAAS) estimates that overall passenger traffic increased in 2008 despite the economic downturn. Lower fuel costs have helped improve air carrier revenues and Singapore Airlines has seen continued, albeit slower, growth on routes to China and the Middle East. Cargo traffic has not fared as well, dropping more than passenger traffic due to the economic environment and the ban on Chinese food products that followed revelations of melamine contamination. Singapore airport retailers are feeling pinched, with several smaller vendors leaving the new Terminal 3. Industry representatives offer mixed assessments of the severity of the economic situation for airlines and when the situation might improve. End Summary.

Passengers Reducing Travel or Going Budget

12. (SBU) Passenger air travel has slowed as the number of visitors to Singapore fell two percent to 10.1 million in 2008, causing the Singapore Tourism Board to miss its target of 10.8 million visitors for the year. However, the Civil Aviation Authority of Singapore (CAAS) estimates that overall passenger traffic for 2008 was higher than in 2007 despite the economic downturn and lower passenger numbers last quarter, Eileen Poh, CAAS Director for the International Relations Division, told Econoffs January 2. CAAS is still compiling data for 2008, but lower fuel costs and year-end holiday travel that will continue through the Lunar New Year later in January have helped revenue and traffic. Certain routes in Asia, for example those between Singapore and China, continue to grow, though at a slower pace.

13. (SBU) CAAS has noticed some passengers shifting from full-service carriers to budget carriers and opting for regional as opposed to long-haul international travel, Poh said. CAAS has stepped up work to expand the existing budget terminal at Changi International Airport to keep pace with budget travel demand. Phase in of the ASEAN (Association of Southeast Asian Nations) Open Skies agreement could further increase regional budget travel, Poh added.

14. (SBU) Singapore Airlines is taking stock of the effect that lower fuel costs and holiday travel have had on its business, LEE Yueh Chern, Public Affairs Manager for the airline, told Econoff January 7. Lee estimated that fuel represents as much as 40 percent of the airline's operating costs, so the drop in oil prices has been a boon. The airline is realigning capacity to meet changing demand on international routes. It plans to stop direct flights from Singapore to Kuwait in March. In October 2008, it cut flights to Amritsar, India. Singapore Airlines will also reduce flights between Taiwan and Los Angeles, though the leg between Singapore and Taiwan continues to operate at capacity, Lee indicated. The airline will increase flights to Abu Dhabi and Cairo.

15. (SBU) Lee could not estimate losses specifically related to reductions in business travel, noting that those numbers would become clearer after the holidays and the first quarter of 2009. She was sanguine about any possible effect of budget carriers on

Singapore Airlines' market share during the downturn, noting that many passengers appreciate the reliability of full-service carriers.

Air Cargo Volume Harder Hit

16. (SBU) Lee stated that in November 2008 Singapore Airlines' overall load carried (passengers and cargo) dropped 7.5 percent compared to November 2007. In the same period freight tonnage per kilometers carried (cargo only) dropped 12.5 percent. CAAS predicted that unlike passenger traffic, cargo volume would actually show negative growth for 2008 compared to 2007. This is partly due to the economic slowdown and its impact on trade in goods such as electronic components, which has seen a particular drop off in the past year. However, Poh noted that CAAS saw a substantial reduction in air cargo volumes after melamine contamination was found in Chinese milk products, prompting many countries, including Singapore, temporarily to ban related food imports. Singapore Airlines has asked its cargo pilots to take unpaid leave in an effort to reduce costs and capacity, Lee said.

Tough Times for Airport Retailers

17. (SBU) The downturn in travel has also affected the retail businesses at Changi International Airport. In January 2008, the Ministry of Transport celebrated the opening of Terminal 3, which includes multiple levels of restaurants and shops and a large supermarket. MOT said at the time that the new terminal would help meet growing tourist and business traffic that would one day reach 70 million passenger movements annually. Since then some smaller

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retailers have asked CAAS to renegotiate or terminate their leases at the Terminal 3 because traffic flows and sales have not met projections, Poh said. Overall the airport is still profitable, but projected revenues for Terminal 3 may have been overly optimistic, Poh continued. High-end luxury retailers and stores with strong brand recognition that are part of a larger network of outlets appear able to weather the economic downturn, but some smaller retailers are leaving Terminal 3.

18. (SBU) Changi International Airport manages a S\$150 million (US \$101 million) fund to assist airlines and provide incentives for carriers to undertake riskier projects such as opening new routes from Singapore, Poh stated. The goal is to encourage growth in airport traffic, and participating companies must meet certain benchmarks to continue to receive funds. CAAS anticipates that more companies will apply for this program during the economic downturn, Poh said.

Industry Predictions for the Future

19. (SBU) Poh was eager to discuss the timing of an economic turnaround in the United States, emphasizing that it would have a significant effect on both passenger and cargo traffic in Singapore. Poh pointed out that even within the airline industry there are differing opinions regarding the severity of the economic downturn and when things will improve. In December, the International Air Transport Authority (IATA) predicted US\$2.5 billion in losses for 2009, and IATA's Director General and CEO called the current situation the "worst revenue environment in 50 years." However, Poh said that during a December speech in Singapore, Roberto Kobeh Gonzalez, President of the Council of the International Civil Aviation Organization (ICAO), struck a more optimistic tone and predicted 0.9 percent growth in the airline industry for 2009 and recovery and five percent growth for the industry in 2010.

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